



**DEPARTMENT OF
FINANCE**
OFFICE OF THE DIRECTOR

STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO, CA ■ 95814-4998 ■ [WWW.PDF.CA.GOV](http://www.pdf.ca.gov)

January 9, 2004

Dear Governor:

This budget owes much to the audit of state government that you called for in your campaign. With the help of Department of Finance and legislative staff, I presented the initial findings of the audit two days before taking the oath of office as your Director of Finance. Those findings were grim: your new administration inherited an accumulated debt of \$22 billion and faced an ongoing, annual budget shortfall of \$14 billion. California has never been closer to insolvency.

Just as a firm facing bankruptcy needs a "work-out" plan, the State of California needs a responsible, measured approach to return it to fiscal health. With your leadership, this budget outlines such a plan. The Economic Recovery Bond, which you and the Legislature have placed on the March 2004 ballot, is a cornerstone to this plan. But refinancing debt alone cannot solve the problem. You have made the restoration of California's economy your highest priority, which will produce dividends in the form of increased revenues over the long term. When combined with the reductions, cost avoidance and long-term reforms proposed in this budget, this will bring us back to fiscal stability over the next several years.

The second phase of the audit is reflected throughout this budget. We have examined every major program in state government and we identify many instances of inefficiency, questionable priorities, lack of accountability, and in some cases, outright fraud. Where possible, your budget proposes immediate solutions to these problems. In many cases, however, a longer-range approach to reform is wiser. The budget outlines many such reform proposals, and our efforts to identify more efficient less expensive ways for state government to do business will continue.

Let there be no doubt, this is a very difficult budget. It requires all of California's major programs to make sacrifices. At the same time, the budget protects your highest priority – our children's education. The education community should be congratulated for the cooperative spirit they have shown in working with you to develop this budget. Education leaders have recognized the need to contribute to solving the state's fiscal problems and you have made it a priority to fund as much growth as possible in per-student funding, even in these most difficult financial circumstances.

Please join me in expressing heartfelt thanks to the women and men of the California Department of Finance and their families. They represent the very best that state government has to offer. Without their dedication and professionalism, this budget would not have been possible.

Sincerely,

Donna Arduin
Director of Finance